

**Report of the
PUBLIC EMPLOYEE RETIREMENT
ADMINISTRATION COMMISSION
on the Examination of the
Peabody
Contributory Retirement System
For the Four Year Period
January 1, 1999 - December 31, 2002
PERAC 02: 09-074-30**

TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations	2
Statement Of Ledger Assets And Liabilities	4
Statement Of Changes In Fund Balances	5
Statement Of Income	6
Statement Of Disbursements.....	7
Investment Income.....	8
Statement Of Allocation Of Investments Owned	9
Supplementary Investment Regulations	10
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	12
Note 2 - Significant Accounting Policies.....	13
Note 3 - Supplementary Membership Regulations.....	14
Note 4 - Administration Of The System	16
Note 5 - Actuarial Valuation And Assumptions	17
Note 6 - Membership Exhibit.....	18

May 28, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Peabody** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **1999** to December 31, **2002**. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner James Ryan who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton
Executive Director

Peabody Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

Annual Statement

A review of the 12/31/02 Annual Statement revealed that General Ledger (GL) investment income gains and losses account balances were not in agreement with their corresponding supporting schedules that accompany the Annual Statement. For example, realized and unrealized gains and losses reported on Schedule 6 "Detail of Investments Owned" did not agree to the GL accounts on the Annual Statement Investment Income page.

Recommendation:

As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement in order to allow readers to make an accurate assessment of the system's financial condition.

Prior to submission of the Annual Statement the Peabody Retirement System must establish a review process to ensure all line items on the Annual Statement agree with their detailed supporting schedules. The administrative staff of the system should refer to the PERAC Annual Statement Guide when performing this review process. Furthermore, any balance discrepancies found should be analyzed and adjusted by either a journal entry or a corrected supporting schedule. Any unresolved investment reporting issues should be documented and reported to the PERAC Investment Unit.

Board Response:

The Pension Administrator has reviewed the proper accounting procedures with Mr. Ryan at PERAC for reconciling investment gains and losses to subsidiary account records. The correct procedures are currently being used. Additionally, the Annual Statement is also reviewed by a Board member to ensure accuracy.

Interest Not Refunded

The "Interest Not Refunded" account #4822 was incorrectly being credited when an employee retires. This account should only be used when a Retirement System member receives a refund due to resignation. During 2002, a total of \$12,288.77 was credited to account #4822 when employees retired. An adjusting entry was correctly made to reverse the \$12,288.77 from account #4822, however, the "Annuity Savings" account #3293 was erroneously credited instead of the "Annuity Reserve" account #3294. As a result, the Annuity Reserve account #3294 was understated by \$12,288.77 at the end of December 31, 2002.

This issue appears to be a result of the way the software system is being used to transfer an employee's Annuity Savings account balance to the Annuity Reserve upon retirement.

Recommendation:

The System must make a correcting entry to debit account #3293 Annuity Savings and credit Account #3294 Annuity Reserve for \$12,288.77. Furthermore, any post 2002 retiree transfer

Peabody Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

errors must be corrected to ensure the balance in the members account at retirement is fully transferred to the Annuity Reserve account.

Board Response:

The Pension Administrator was made aware of the problem and made the necessary entry to correct this problem for the year end December 31, 2003.

Final Determination:

PERAC auditors will follow-up in six (6) months to ensure appropriate actions have been taken on all findings.

Peabody Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2002	2001	2000	1999
Cash	\$1,013,040	\$1,124,178	\$2,480,842	\$1,558,724
Short Term Investments	0	0	0	0
Fixed Income Securities (at book value)	35,824,183	38,869,503	43,266,901	38,026,448
Equities	8,431,277	12,405,575	22,406,329	28,901,845
Pooled Short Term Funds	0	0	0	0
Pooled Domestic Equity Funds	0	0	0	0
Pooled International Equity Funds	0	0	0	0
Pooled Global Equity Funds	33,616,505	36,945,742	23,344,665	22,476,611
Interest Due and Accrued	96	297	698,979	606,581
Accounts Receivable	2,627,628	2,306,381	2,952,265	2,217,478
Accounts Payable	(84,430)	(90,790)	(252,141)	0
TOTAL	<u>\$81,428,298</u>	<u>\$91,560,886</u>	<u>\$94,897,839</u>	<u>\$93,787,686</u>
FUND BALANCES				
Annuity Savings Fund	\$25,477,822	\$23,838,648	\$22,517,793	\$21,499,162
Annuity Reserve Fund	11,498,673	11,490,507	11,378,331	11,232,764
Pension Fund	7,321,054	9,319,170	11,182,366	12,816,994
Military Service Fund	1,084	1,019	994	974
Expense Fund	0	0	0	0
Pension Reserve Fund	37,129,666	46,911,541	49,818,355	48,237,793
TOTAL	<u>\$81,428,298</u>	<u>\$91,560,886</u>	<u>\$94,897,839</u>	<u>\$93,787,686</u>

Peabody Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1999)	\$20,477,110	\$10,721,573	\$14,087,093	\$953	\$0	\$39,657,895	\$84,944,623
Receipts	2,535,552	328,728	6,537,651	21	568,601	8,576,950	18,547,503
Interfund Transfers	(1,415,368)	1,412,935	(516)	0	0	2,949	(0)
Disbursements	(98,133)	(1,230,473)	(7,807,234)	0	(568,601)	0	(9,704,440)
Ending Balance (1999)	21,499,162	11,232,764	12,816,994	974	0	48,237,793	93,787,686
Receipts	2,601,391	337,444	6,751,881	20	665,462	1,577,630	11,933,829
Interfund Transfers	(1,248,801)	1,245,869	0	0	0	2,932	(0)
Disbursements	(333,959)	(1,437,746)	(8,386,509)	0	(665,462)	0	(10,823,676)
Ending Balance (2000)	22,517,793	11,378,331	11,182,366	994	(0)	49,818,355	94,897,839
Receipts	2,762,211	344,846	6,979,240	25	540,086	(2,907,454)	7,718,952
Interfund Transfers	(1,176,855)	1,176,215	0	0	0	641	(0)
Disbursements	(264,500)	(1,408,884)	(8,842,436)	0	(540,086)	0	(11,055,906)
Ending Balance (2001)	23,838,648	11,490,507	9,319,170	1,019	(0)	46,911,541	91,560,886
Receipts	3,077,979	347,052	7,242,974	65	491,969	(9,781,876)	1,378,162
Interfund Transfers	(1,096,298)	1,096,298	0	0	0	0	0
Disbursements	(342,507)	(1,435,185)	(9,241,089)	0	(491,969)	0	(11,510,749)
Ending Balance (2002)	<u>\$25,477,822</u>	<u>\$11,498,673</u>	<u>\$7,321,054</u>	<u>\$1,084</u>	<u>(\$0)</u>	<u>\$37,129,666</u>	<u>\$81,428,298</u>

Peabody Retirement System

STATEMENT OF INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:				
Members Deductions	\$2,512,608	\$2,325,061	\$2,049,738	\$1,933,173
Transfers from other Systems	188,515	0	101,681	120,294
Member Make Up Payments and Redeposits	55,903	27,720	18,327	51,557
Investment Income Credited to Member Accounts	<u>320,952</u>	<u>409,430</u>	<u>431,645</u>	<u>430,528</u>
Sub Total	<u>3,077,979</u>	<u>2,762,211</u>	<u>2,601,391</u>	<u>2,535,552</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>347,052</u>	<u>344,846</u>	<u>337,444</u>	<u>328,728</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	159,648	149,347	147,774	145,277
Received from Commonwealth for COLA and Survivor Benefits	644,563	672,121	711,996	753,954
Prin Adj Account Amort Gain	4,432	517	0	37
Pension Fund Appropriation	<u>6,434,331</u>	<u>6,157,255</u>	<u>5,892,111</u>	<u>5,638,383</u>
Sub Total	<u>7,242,974</u>	<u>6,979,240</u>	<u>6,751,881</u>	<u>6,537,651</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	0	0
Investment Income Credited Military Service Fund	<u>65</u>	<u>25</u>	<u>20</u>	<u>21</u>
Sub Total	<u>65</u>	<u>25</u>	<u>20</u>	<u>21</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>491,969</u>	<u>540,086</u>	<u>665,462</u>	<u>568,601</u>
Sub Total	<u>491,969</u>	<u>540,086</u>	<u>665,462</u>	<u>568,601</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	33,312	20,765	22,458	26,546
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	3,325	2,510	32,616	1,256
Excess Investment Income	<u>(9,818,513)</u>	<u>(2,930,729)</u>	<u>1,522,556</u>	<u>8,549,148</u>
Sub Total	<u>(9,781,876)</u>	<u>(2,907,454)</u>	<u>1,577,630</u>	<u>8,576,950</u>
TOTAL RECEIPTS	<u>\$1,378,162</u>	<u>\$7,718,952</u>	<u>\$11,933,829</u>	<u>\$18,547,503</u>

Peabody Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Annuity Savings Fund:				
Refunds to Members	\$237,109	\$132,904	\$196,092	\$58,000
Transfers to other Systems	<u>105,398</u>	<u>131,596</u>	<u>137,867</u>	<u>40,133</u>
Sub Total	<u>342,507</u>	<u>264,500</u>	<u>333,959</u>	<u>98,133</u>
Annuity Reserve Fund:				
Annuities Paid	1,376,329	1,317,584	1,257,573	1,193,932
Option B Refunds	<u>58,856</u>	<u>91,300</u>	<u>180,173</u>	<u>36,541</u>
Sub Total	<u>1,435,185</u>	<u>1,408,884</u>	<u>1,437,746</u>	<u>1,230,473</u>
Pension Fund:				
Pensions Paid				
Regular Pension Payments	6,562,641	6,256,583	5,873,181	5,459,791
Survivorship Payments	643,476	576,464	541,326	516,166
Ordinary Disability Payments	116,976	122,288	129,499	125,122
Accidental Disability Payments	1,267,884	1,302,126	1,255,840	1,167,777
Accidental Death Payments	434,332	414,243	400,948	362,044
Section 101 Benefits	58,730	47,917	51,754	52,095
3 (8) (c) Reimbursements to Other Systems	157,050	122,815	133,962	124,240
State Reimbursable COLA's Paid	0	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>9,241,089</u>	<u>8,842,436</u>	<u>8,386,509</u>	<u>7,807,234</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	16,740	16,652	15,341	16,609
Salaries	107,922	118,859	137,858	95,324
Legal Expenses	0	0	0	0
Medical Expenses	34	53	0	133
Travel Expenses	608	1,212	483	1,784
Administrative Expenses	20,482	36,175	12,307	17,370
Furniture and Equipment	5,448	3,262	19,808	8,782
Management Fees	304,959	324,791	423,606	384,216
Custodial Fees	35,777	39,082	56,060	44,384
Consultant Fees	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>491,969</u>	<u>540,086</u>	<u>665,462</u>	<u>568,601</u>
TOTAL DISBURSEMENTS	<u>\$11,510,749</u>	<u>\$11,055,906</u>	<u>\$10,823,676</u>	<u>\$9,704,440</u>

Peabody Retirement System

INVESTMENT INCOME

**FOR THE FOUR YEAR PERIOD BEGINNING JANUARY 1, 1999
AND ENDING DECEMBER 31, 2002**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2002	2001	2000	1999
Investment Income Received From:				
Cash	\$4,214	\$42,099	\$76,719	\$80,507
Short Term Investments	2,265	0	0	14,687
Fixed Income	0	698,542	3,144,698	2,466,094
Equities	111,922	133,789	259,114	401,383
Pooled or Mutual Funds	0	0	0	1,412,452
Commission Recapture	3,476	5,627	7,103	12,581
TOTAL INVESTMENT INCOME	<u>121,877</u>	<u>880,057</u>	<u>3,487,633</u>	<u>4,387,704</u>
Plus:				
Increase in Amortization of Fixed Income Securities	0	0	0	104,896
Realized Gains	225,015	513,670	2,868,404	6,247,871
Unrealized Gains	3,689,776	595,374	3,614,492	5,771,353
Interest Due and Accrued on Fixed Income Securities - Current Year	96	297	698,979	606,581
Sub Total	<u>3,914,888</u>	<u>1,109,340</u>	<u>7,181,874</u>	<u>12,730,700</u>
Less:				
Decrease in Amortization of Fixed Income Securities	0	0	0	(1,482,450)
Paid Accrued Interest on Fixed Income Securities	0	(129,346)	(388,981)	(226,042)
Realized Loss	(2,240,986)	(1,418,987)	(3,932,054)	(3,599,456)
Unrealized Loss	(10,453,957)	(4,098,871)	(4,599,386)	(1,447,933)
	0	0	0	0
Consultant Fees Paid	0	0	0	0
Management Fees Paid	0	0	0	0
Board Member Stipend	0	0	0	0
Interest Due and Accrued on Fixed Income Securities - Prior Year	(297)	(698,979)	(606,581)	(485,497)
Sub Total	<u>(12,695,240)</u>	<u>(6,346,183)</u>	<u>(9,527,001)</u>	<u>(7,241,378)</u>
NET INVESTMENT INCOME	<u>(8,658,475)</u>	<u>(4,356,786)</u>	<u>1,142,506</u>	<u>9,877,026</u>
Income Required:				
Annuity Savings Fund	320,952	409,430	431,645	430,528
Annuity Reserve Fund	347,052	344,846	337,444	328,728
Military Service Fund	65	25	20	21
Expense Fund	491,969	540,086	665,462	568,601
TOTAL INCOME REQUIRED	<u>1,160,038</u>	<u>1,294,386</u>	<u>1,434,572</u>	<u>1,327,878</u>
Net Investment Income	<u>(8,658,475)</u>	<u>(4,356,786)</u>	<u>1,142,506</u>	<u>9,877,026</u>
Less: Total Income Required	<u>1,160,038</u>	<u>1,294,386</u>	<u>1,434,572</u>	<u>1,327,878</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$9,818,513)</u>	<u>(\$5,651,172)</u>	<u>(\$292,066)</u>	<u>\$8,549,148</u>

Peabody Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$1,013,040	\$1,013,040	1.28%	100
Short Term	0	0	0.00%	100
Fixed Income	35,824,183	35,824,183	45.41%	40 - 80
Equities	8,431,277	8,431,277	10.69%	40
Pooled Global Equity Funds	33,616,505	33,616,505	42.61%	
GRAND TOTALS	<u>\$78,885,004</u>	<u>\$78,885,004</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Peabody** Retirement System was -9.96%. For the five year period ending December 31, **2002**, the rate of return for the investments of the **Peabody** Retirement System averaged 3.73%. For the seventeen-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Peabody** Retirement System was 9.88%.

Peabody Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The **Peabody** Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

September 8, 1988

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

March 30, 1989

20.04(6) Equities of foreign corporations, including American Depositary Receipts, listed on the New York Stock Exchange, provided that all such investments are denominated in U.S. currency, and that the total of all such investments shall not exceed 10% of the total book value of equity investments.

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent as rated by one or more recognized bond rating services.

September 30, 1989

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent.

20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 150% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short term obligations.

20.07(6) Sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

March 22, 1990

20.04(7) The portion of the portfolio that is invested in the Freedom Capital Environmental Fund and the Freedom Capital Global Fund may include investments in international equity and fixed income investments which are traded on foreign exchanges; provided further that the total of such international investments may not exceed 10% of the portfolio and shall be considered part of the board's total equity allocation.

Peabody Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONT'D)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

January 20, 1992

16.02(4) The board may employ a custodian bank and as of January 1, 1992, may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year. 08% of the value of the fund.

April 11, 1996

20.03(1) Equity investments shall not exceed 50% of the portfolio valued at market, including international equities which shall not exceed 5% of the portfolio valued at market.
(rescinded December 1999)

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

May 30, 1996

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market.

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all **Peabody** Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, redeposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The **Peabody** Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

July 15, 1991

In order to become a member of the Peabody Retirement System, a member must be employed in a permanent position with a normal workweek of twenty (20) hours or more.

July 21, 1993

In order to purchase prior service, a person must have been or be a member of the Peabody Retirement System.

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D)

May 10, 1999

Any purchase of military service time [pursuant to Chapter 71 of the Acts of 1996], that is paid in installments will not exceed a one-year period of time.

January 10, 2003

Pursuant to the authority vested in the Commission under G.L. c. 7, § 50, the Board's supplementary rule regarding Authorization for Travel and Travel Related Expenses is approved.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by **Buck Consultants** as of **January 1, 2002**.

The actuarial liability for active members was	\$63,360,281
The actuarial liability for non-vested terminated members was	472,550
The actuarial liability for retired members was	<u>90,028,910</u>
The total actuarial liability was	153,861,741
System assets as of that date were (actuarial value)	<u>99,748,173</u>
The unfunded actuarial liability was	<u>\$54,113,568</u>
 The ratio of system's assets to total actuarial liability was	 64.8%
As of that date the total covered employee payroll was	\$28,963,912

The normal cost for employees on that date was 7.90% of payroll

The normal cost for the employer was 6.50% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
Rate of Salary Increase: 3.0% 2002-2005; 4.0% 2006-2009; 5.0% thereafter

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2002	\$ 99,748,173	\$ 153,861,741	\$ 54,113,568	64.8%	\$ 28,963,912	186.83%
1/1/2000	\$ 93,787,686	\$ 131,602,457	\$ 37,814,771	71.3%	\$ 25,354,706	149.14%
1/1/1998	\$ 73,920,249	\$ 121,580,729	\$ 47,660,480	60.8%	\$ 23,080,847	206.49%
1/1/1997	\$ 62,605,948	\$ 108,379,374	\$ 45,773,426	57.8%	\$ 21,025,203	217.71%

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR YEAR PERIOD ENDING DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	75	19	17	30	21	32	29	30	11	0
Ordinary Disability	1	0	1	2	0	0		0	0	0
Accidental Disability	0	2	1	1	4	1	1	3	0	0
Total Retirements	76	21	19	33	25	33	30	33	11	0
Total Retirees, Beneficiaries and Survivors	754	760	754	764	772	811	777	784	805	792
Total Active Members	706	717	711	703	749	733	776	788	826	814
Pension Payments										
Superannuation	\$3,916,105	\$4,093,946	\$4,242,321	\$4,465,776	\$4,831,397	\$5,046,235	\$5,459,791	\$5,873,181	\$6,256,583	\$6,562,641
Survivor/Beneficiary Payments	408,722	412,980	427,739	459,299	494,666	499,545	516,166	541,326	576,464	643,476
Ordinary Disability	230,905	210,958	203,461	168,374	153,333	141,437	125,122	129,499	122,288	116,976
Accidental Disability	1,101,387	1,146,860	1,208,665	1,216,827	1,191,581	1,168,351	1,167,777	1,255,840	1,302,126	1,267,884
Other	<u>447,064</u>	<u>423,643</u>	<u>429,035</u>	<u>448,143</u>	<u>501,001</u>	<u>512,660</u>	<u>538,379</u>	<u>586,664</u>	<u>584,975</u>	<u>650,112</u>
Total Payments for Year	<u>\$6,104,183</u>	<u>\$6,288,387</u>	<u>\$6,511,221</u>	<u>\$6,758,419</u>	<u>\$7,171,978</u>	<u>\$7,368,228</u>	<u>\$7,807,234</u>	<u>\$8,386,510</u>	<u>\$8,842,436</u>	<u>\$9,241,089</u>